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**State of Wisconsin**

**Department of Health and Family Services**

**DIVISION OF HEALTH CARE FINANCING**

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June 24, 2004

The Honorable Kitty Rhoades  
Wisconsin State Assembly  
State Capitol, Room 321 East  
P. O. Box 8953  
Madison, WI 53708

Dear Representative Rhoades:

In response to your letter, I am providing information on cost containment measures the Department has initiated to reduce expenditures in the state's Medicaid program. As your letter noted, at the Joint Committee on Finance hearing, I noted that the Department was in the process of implementing measures that would save between \$20 to \$30 million.

As background, it is important to note that projected Medicaid expenditures and the shortfall for the remainder of the 2003-05 biennium are relative to the re-estimate of Medicaid finances prepared by the Legislative Fiscal Bureau in January. Since that time, we have continued to monitor Medicaid expenditures and revenues each month for material variations in the estimates. In addition, we have worked diligently to identify any additional opportunities for potential savings.

To date, the additional savings identified fall within the following areas:

- Reduce pharmacy expenditures by obtaining supplemental rebates for brand name prescription drugs and by implementing prior authorization for brand name drugs for which a generic is available (brand medically necessary) - \$11.8 million.
- Modify the payment date for HMO capitation payments - \$5.1 million.
- Increase savings through administrative actions, including audits, recoveries and purchasing (non-custodial parent liability, vision care contract, Family Care level of care adjustments, psychiatric services supplement, HealthCheck and newborn duplicate payment recoveries) – \$3.5 million.
- Accelerate payments to claim the higher federal matching funds rate available for services provided prior to June 30, 2004 for nursing home, managed care, Family Care and waivers - \$3.8 million.
- Reestimate anticipated savings for selected Act 33 provisions - \$3 million.

Representative Kitty Rhoades

June 24, 2004

Page 2

In total, the preliminary estimate of projected savings from these additional cost containment initiatives is \$27.2 million. This projected reduction is in *addition* to numerous provisions that were enacted and implemented as a result of Act 33, for which substantial savings are already incorporated in the January reestimates of Medicaid finances.

We will continue to identify opportunities for additional savings as opportunities arise, and look forward to working with you as we mutually assess how to meet Medicaid targets and address the shortfall in budgeted expenditures.

Sincerely,

Mark B. Moody  
Administrator

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Representative Kitty Rhoades

June 24, 2004

Page 3

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